

Message Text

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TAGS: EFIN, EEC

SUBJECT: MAY 17 MEETING OF SNAKE FINANCE MINISTERS-- NO CHANGE
IN INTERVENTION POLICIES.

1. EC FINANCIAL OFFICIALS TELL US THAT THE MAY 17 MEETING OF FINANCE
MINISTERS WHOSE COUNTRIES ARE IN THE EUROPEAN MONETARY SNAKE FOCUSED
ON EXCHANGE MARKET INTERVENTION POLICIES. THE SWEDISH AND NORWEGIAN
MINISTERS CALLED FOR AN IMPROVEMENT IN SNAKE INTERVENTION POLICIES IN

ORDER TO PREVENT THE ERRATIC MOVEMENT OF EXCHANGE RATES WHICH OCCURRED

ABOUT TEN WEEKS AGO. THE BELGIAN AND DANISH REPRESENTATIVES REPORTEDLY

CRITICIZED THE FRG FOR NOT INTERVENING SUFFICIENTLY IN THE MARKET
DURING THE PERIOD OF SPECULATION AGAINST WEAKER SNAKE CURRENCIES.
THEY CITED THE NEED FOR GREATER SYMMETRY AMONG SNAKE PARTICIPANTS
SO THAT THE WEAK CURRENCIES WOULD NOT HAVE TO BEAR THE BULK OF THE
BURDEN IN KEEPING THEIR RATES WITHIN SNAKE MARGINS.

2. THE FRG REPRESENTATIVES (EMMINGER OF THE BUNDESBANK AND PEOHL OF
THE FINANCE MINISTRY) REPORTEDLY REPLIED THAT AS LONG AS MAJOR DIVER-
GENCIES EXISTED AMONG PARTICIPANTS' ECONOMIC POLICIES, EXCHANGE MARKET

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PROBLEMS COULD NOT BE AVOIDED. IN ADDITION, THE FRG WANTED TO KEEP

DOWN THE EXPANSION OF DOMESTIC LIQUIDITY, WHICH LIMITED THE AMOUNT IT COULD APPROPRIATELY SPEND IN EXCHANGE MARKETS. EMMINGER NOTED THAT THE DM-DOLLAR RATE REMAINED RELATIVELY STABLE DURING THE CRISIS, WHICH TENDED TO INDICATE THAT THE FRG WAS PURSUING THE APPROPRIATE INTERVENTION POLICIES. HE ADDED THAT THE EC CENTRAL BANK GOVERNORS' RECENT ASSESSMENT OF EXCHANGE MARKETS STATED THAT SINCE MARCH 15 THE SNAKE HAD BEEN FUNCTIONING ADEQUATELY. THE SPREAD BETWEEN PARTICIPANTS' EXCHANGE RATES WAS NOW UNDER 20 PERCENT, WELL WITHIN THE SNAKE MARGINS. (THE MISSION HAS A COPY OF THIS ASSESSMENT WHICH IT WILL SEND TO INTERESTED WASHINGTON AGENCIES.) EMMINGER CONCLUDED THAT THEY SAW NO NEED TO CHANGE SNAKE INTERVENTION POLICIES AT THIS TIME.

3. THE FRG REPRESENTATIVES SAID THE RESURGENCE OF THE GERMAN ECONOMY SHOULD HELP STRENGTHEN COHESION AMONG SNAKE MEMBERS. THEY PROJECTED A REAL GDP GROWTH OF 6-7 PERCENT IN 1976 AND A SHARP INCREASE IN GERMAN IMPORTS. COMPARED TO MARCH 1976, THE VOLUME OF GERMAN IMPORTS IN MARCH WAS UP 30 PERCENT, MUCH OF THIS FROM SNAKE COUNTRIES. IN REPLY TO A QUESTION, EMMINGER SAID FRG MEASURES TO REDUCE DOMESTIC LIQUIDITY WERE DESIGNED TO ABSORB THE RECENT INFLOW OF CAPITAL AND NOT TO RAISE INTEREST RATES. EMMINGER THOUGHT THERE WAS STILL SUFFICIENT LIQUIDITY IN THE ECONOMY TO MEET BUSINESS NEEDS AND AVOID AN APPRECIABLE INCREASE IN INTEREST RATES. DE STRYCKER OF THE BELGIAN CENTRAL BANK CONFIRMED THAT EXCHANGE MARKET CONDITIONS HAD IMPROVED. BELGIUM HAS NOW RESTORED ABOUT ONE-HALF OF THE RESERVES WHICH WERE LOST DURING THE SPECULATION AGAINST THE BELGIAN FRANC. HINTON

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